Monitoring and Measuring: A critical part of leading and managing in 2018

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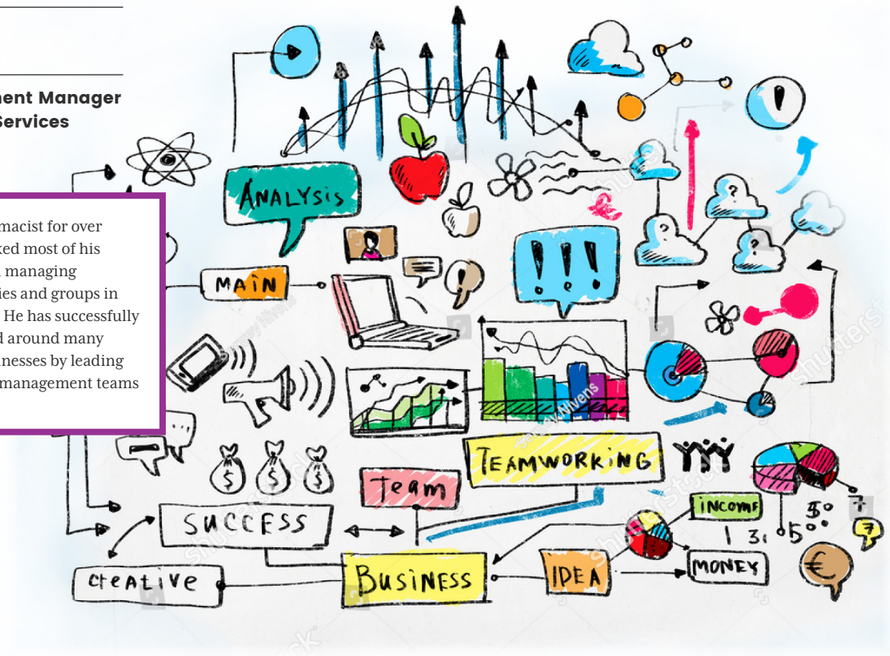
Blair has been a pharmacist for over 35 years and has worked most of his professional career in managing community pharmacies and groups in the UK and Australia. He has successfully developed and turned around many varied pharmacy businesses by leading and developing their management teams to better perform.



Learning objectives

After completing this activity, pharmacists should be able to:

- describe the importance of business performance measurement in today's community pharmacy environment
- list types of business performance measures which are important to monitor as part of developing and maintaining a viable community pharmacy business
- describe the process of monitoring and reviewing key performance measures, including the identification of remedial actions to be taken.

Competency standards

2010: 4.2, 4.4, 4.5, 4.7 **2016:** 3.1, 3.3, 3.4

Accreditation number A1808ITK1

Accreditation expiration date: 1 August 2020

This activity has been accredited for 1.0 hour of Group One CPD (or 1.0 CPD credit) suitable for inclusion in an individual pharmacist's CPD plan, which may be converted to 1.0 hour of Group Two CPD (or 2.0 CPD credits) upon successful completion of the associated assessment activity.

Introduction

In today's pharmacy environment, pharmacies can no longer rely on income from prescriptions to cross-subsidise the broad scope of professional and retail services. There is now an expectation that owners and managers take a more strategic approach to the planning and management of pharmacy services; cognisant of the competitive and demographic environment in which they operate.

The development of the pharmacy's business plan includes the establishment of performance measures/indicators for the key result areas of the business, for example financial, customer service, operations (e.g. stock turn) and team indicators.

The performance of both the dispensing and retail side of a pharmacy business is very important. Therefore, this CPD activity has been designed to assist owners and managers to develop their knowledge and skills in community pharmacy business performance management.

In particular, the activity will provide information about Key Performance Indicators (KPIs), relating to four areas which contain interrelated performance measures:

1. Team (People)
2. Operations
3. Customer
4. Financials.

This CPD activity will also unravel the interrelated connections between the four performance measures.

What is a Key Performance Indicator?

A Key Performance Indicator (or a KPI) is a metric which is used to measure and monitor performance. KPIs may be grouped into a number of different categories, and community pharmacies use a subset of these to monitor their activities and measure performance.

If you were to search 'What are the essential retail KPIs' on the internet or elsewhere, you would end up being swamped with information and references offering differing ideas from differing sources with many differing priorities. Many sites offer the top 4 to top 10 KPIs; however, very few offer any insight into how to actually use, read and trend their recommended KPI numbers to identify the levels to pull and actions to take to develop a business over a period of time.

Performance indicators that are single, at-that-point-in-time indicators are meaningless, so it is imperative that all measures and monitors are able to:

1. Show patterns and trends emerging over a time period

Examples of time-based indicators include:

- A weekly scripts dispensed figure of 2,000 might look fantastic when reported at the end of the week, and may portray the feeling of a great end result of a hardworking and tiring week; however, it is a disastrous figure if there has been a slow, steady and unnoticeable decline in script numbers of 10 scripts per week during the past year and 2,500 scripts were dispensed in the same week of the previous year (see Figure 1).
- A slow, steady and gradual increase in absence hours may go unnoticed if not trended month by month as measured as the % of total hours rostered, and a slow and gradual decline in team morale could be going unnoticed.

2. Benchmark against other similar pharmacies

Benchmark examples include:

- Managing the salary budget to 35% of GP$ might seem acceptable if it has recently reduced from 40% of GP$, but is totally unacceptable if other similar pharmacies are managing at 30% of GP$.
- A generic substitution rate of 70% might seem acceptable, but not if other similar pharmacies are achieving 80%.

> *"It seems that in the past, most pharmacies were profitable without the active management of the business side that is required today."*

3. Compare like for like

Like for like examples include:

- Comparison of the weekly salary spend in dollars is only acceptable week on week if the sales of a pharmacy are constant, steady and without excessive variation; it is preferable to measure the Salary dollars spent per $100 of Sales i.e. the Salary to Sales %, or alternatively in today's pharmacy environment with hugely varying Sales (e.g. Hepatitis C medicines) it is better still and more accurate to measure the Salary dollars spent per $100 of gross profit, or 'Salary to GP$ %'.
- A 20% year-on-year reduction in stock on hand (SOH) dollar value can look great on paper and increase available cash flow to the pharmacy, but could prove to be potentially disastrous to the stock levels of the pharmacy if the pharmacy is achieving 20% sales increases. In this situation where the pharmacy's sales are not constant and steady, it is far preferable to measure Stock Investment as the 'forward week's stock' figure (WOS) which directly relates the current Stock on Hand value to the pharmacy's expected sales.

$$\text{Forward week's stock} = \frac{\text{Stock on Hand Value \$}}{\text{Average weekly sales}}$$

(It is imperative to ensure both the values used for the numerator and the denominator are either measured as either Cost value or Retail value)

4. Demonstrate progress towards targets

In order to be able to demonstrate progress towards targets, it is very important and imperative to have formalised Targets and an Action Plan to achieve them. It is only possible to have Targets if you are:

- currently thoroughly monitoring and measuring the business so the current starting point is known
- aware of applicable benchmarks of similar pharmacies
- agreeing to Targets appropriate for the business, e.g. WOS vs. SOH, Customer Numbers, Prescription (Rx) numbers and Average Basket Value (ABV).

Use SMART targets. The SMART acronym is expressed in various ways so use the meaning you are familiar with, for example:

S – specific, significant, stretching

M – measurable, meaningful, motivational

A – agreed upon, attainable, achievable, acceptable, action-oriented

R – realistic, relevant, reasonable, rewarding, results-oriented

T – time-based, time-bound, timely, tangible, trackable

An example of a SMART Target is:

To reduce the current 'dead stock' value of $5000 to $500 by the end of June 2018.

The Action Plan for this Target might include:

Communication; Weekly graph of 'dead stock' value; Rep swaps; Massive Sale COG+5%; Free Gifts With Purchase (GWP) — all planned weekly, monitored and celebrated.

Four key performance measure categories

In addition to the importance of Monitoring and Measuring KPIs as demonstrated above, very few sources of information explain the intricate and intrinsic links between recommended KPIs and how working on one can and will directly affect another.

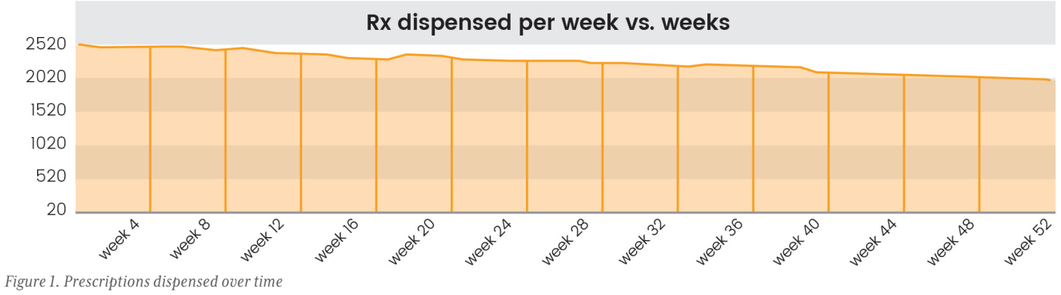


Figure 1. Prescriptions dispensed over time

Most information sources will focus on Financial Measures only and will not step away from the dollars and cents to look at any Customer or Operational Measures and terrifyingly, considering a business is the people working within it, even fewer information sources make mention of any measures to monitor the pharmacy teams' collective and individual behaviours and skill sets.

Sadly, when asked about their business' key numbers and how they are using them, few practising pharmacy proprietors (owners/managers) can give answers that reflect the degree of business acumen needed for today's pharmacy business environment.

It seems that in the past, most pharmacies were profitable without the active management of the business side that is required today. Pharmacists were mainly concerned about the provision of clinical care and the business side, in the main, took care of itself. At that time, there was no need for pharmacists to understand what and how to monitor, measure, and react to key business numbers. These business skills have not been part of the pharmacy degree, so it is not unexpected that many pharmacists assume that these skills are never going to be needed. In today's changing retail environment these skills are most definitely needed.

The retail pharmacy landscape has changed dramatically — competition in the form of discounters, supermarkets and online has, and is, 'grabbing' more and more from the traditional community pharmacy business. PBS reforms are removing much of the previously profitable dispensing income and changes in Community Pharmacy Agreements are increasingly financing pharmacy professional services.

Today's pharmacy owners can no longer tread water on the surface of the business. Owners/managers now need to take a huge breath and dive deep down into the entrails and detail of their businesses to determine exactly what is going on within their business — the 'goods', the 'bads' and the 'uglies'. Having examined these, they then need to 're-surface' to consider an action plan before taking that next huge breath and dive deep back down again to do something about it.

Remember, doing nothing is not an option as:

"If we keep doing what we have always done, then we'll always get what we have always got."

And, *"If we want change then we have to change what we do".*

Financial Measures

Financial measures are the least important of the four KPI measures to be discussed in this CPD activity. Many pharmacists will be surprised/prepared to dispute this statement, saying "Surely we are all about the dollars ($)?"

The answer to this is, "Yes" of course businesses are about the dollars, i.e.

"Sales$ - Costs$ = GP$"

However, it is important to understand that none of the above three financial measures, (Sales, Costs and GP$) as individual entities can be changed on their own without changing many other measures that have an influence upon them, i.e. each of these three are merely the end result of other measures and behaviours, and it is only by causing change in these other measures and behaviours that Sales, Costs and GP$ end results can be improved.

Customer Measures

Pharmacy Managers cannot communicate one day, "We need to increase sales" and then expect when opening the till drawer for dollar notes to just fall from heaven and land in the till. Instead they have to communicate:

"We need to either increase our customer (patient) numbers, or we need to increase the number of items (including Rx) and services each current customer buys; or preferably increase both."

It is then necessary to determine a target and a detailed action plan to achieve that target, monitoring frequently along the way.

It is important to remember:

'Sales$' are the result of 'Customer Numbers' x 'Average Basket Value $'.

Increasing one or both of these factors is the only way to increase Sales$; that is, the pharmacy needs more customers and/or bigger baskets!

The relationship between customers and financial performance is described in Figure 2.

As depicted, the Average Basket Value is influenced by the number of scripts and the number of retail items sold.

It is thus essential to target and monitor over time, Transaction Numbers, Rx numbers, Average Basket

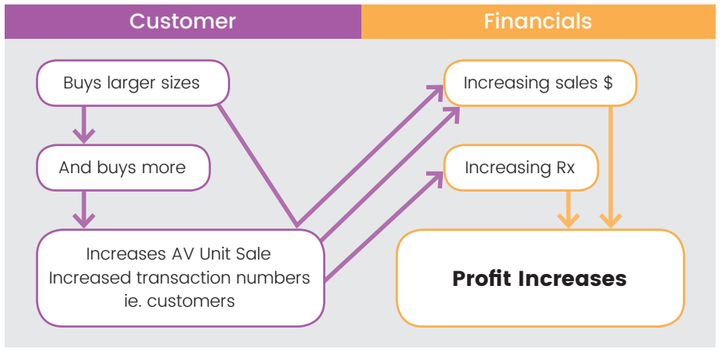


Figure 2. Relationship between Customer Purchases and Financial Performance

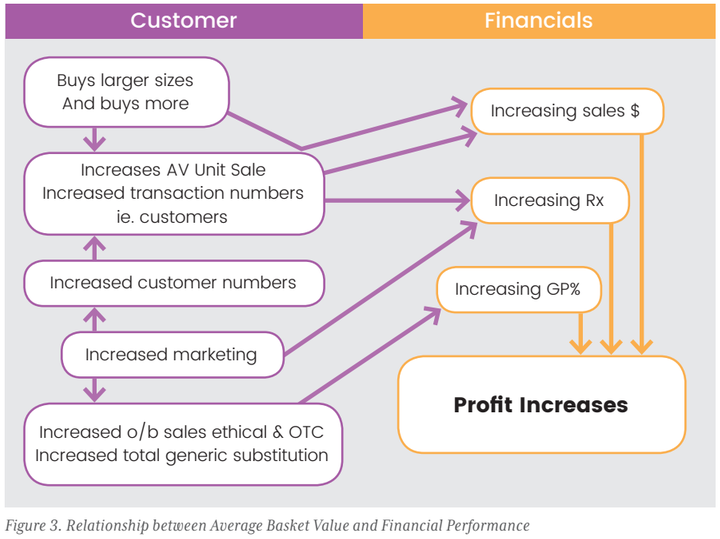


Figure 3. Relationship between Average Basket Value and Financial Performance

Size and Average Basket Value (ABV). The question then becomes, how can we influence these four measures so they then have the consequence of increasing sales?

To increase customer numbers, a pharmacy has to market differently and appropriately to external customers, drawing the pharmacy's existence to their notice and giving the customers a reason to visit and buy. Pharmacies need to offer new customers and their regular customers such great personalised service and loyalty connection that the customer won't consider going elsewhere. As previously discussed, "Nothing will change unless we change what we do and how we do it".

Marketing the pharmacy is a separate huge topic which cannot be covered in detail here; however, the benefits of appropriate marketing to increasing Customer Numbers and Average Basket Value are invaluable and easily measured. Marketing can cover anything from newspaper flyers through catalogues to local posters, word of mouth and radio campaigns, and on the digital marketing front, e.g. email marketing, Facebook and Instagram, and can promote increases not only in customer numbers, but also increased retail sales, as well as increased sales from 6CPA services and a plethora of pharmacy services such as CPAP, Vaccination, Medical Certificates etc. Advertising dollar and Return on Investment can easily be measured.

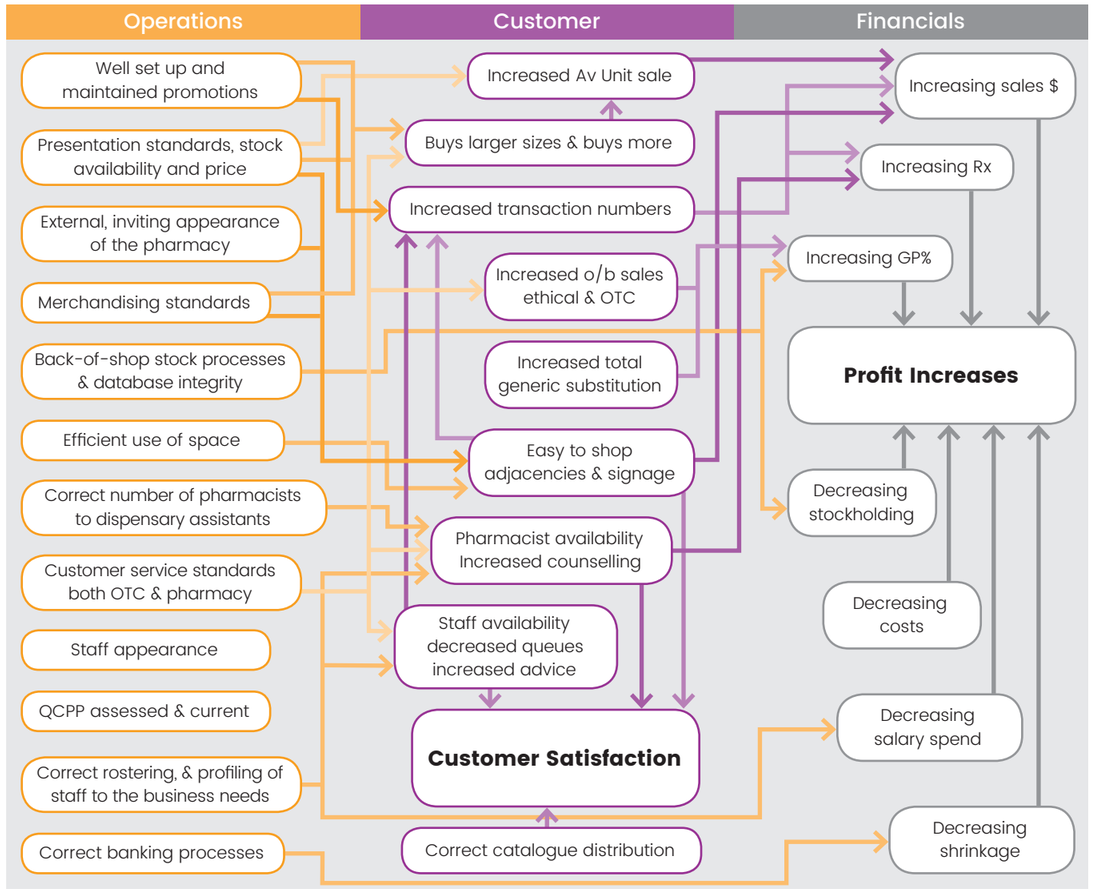


Figure 4. Relationship between Operations, Customers and Financial Performance

Finding the starting point, action planning, changing what is done and monitoring the results, will improve these measures and consequently increase both Transaction Numbers and ABV, and hence Sales and GP$.

Remember: 'Sales$' is the result of:

'Customer Numbers' x 'Average Basket Value $'

Increasing one or both of **Customer Numbers** and/or **ABV$** is the only way to increase Sales.

Operational Measures

Everything that happens operationally in the pharmacy has the ability to affect all the aforementioned 'Customer' and 'Financial' measures, and the interrelationship between everything that happens in a pharmacy becomes even more evident when Operational Measures are discussed, and more avenues are opened up to produce increased Transaction Numbers, Increased Average Basket Values and decreased costs.

The 'Operational' Measures revolve around two areas, 'Physical' (how the pharmacy looks to a customer) and 'Commercial' (costs/expenses and productivity measures), and both can have a direct impact upon Customer Numbers and Average Basket Sizes.

Physical Operational Measures

It is important to stop and examine the physical detail of the pharmacy — metre by metre, through the eyes of a shopping customer and to note, score (monitor) and then react to exactly what is observed.

In the everyday rush and hustle and bustle of the working day it is easy to miss and walk past disasters and opportunities, which if corrected, could make a customer's shopping experience easier and more memorable, and in so doing, increase transaction numbers and Average Basket Value.

If the stock is not available, dirty, or not priced, then it may not be added to a basket resulting in lower ABVs.

If team members are not available to help customers, then service will fail, potential sales may be lost and customers might not return.

Simply put, daily monitored scores of 0–10 of different areas of the pharmacy will allow a picture to be built to see trends and repetitive causes. Scores with appropriate notes regarding signage, missing price and promotional tickets, stock gaps, cleanliness and staff availability etc. will allow an action plan to be built to overcome the causes of the low scores.

Continual daily monitoring and scoring, even when the operations are corrected, will quickly indicate any return to bad

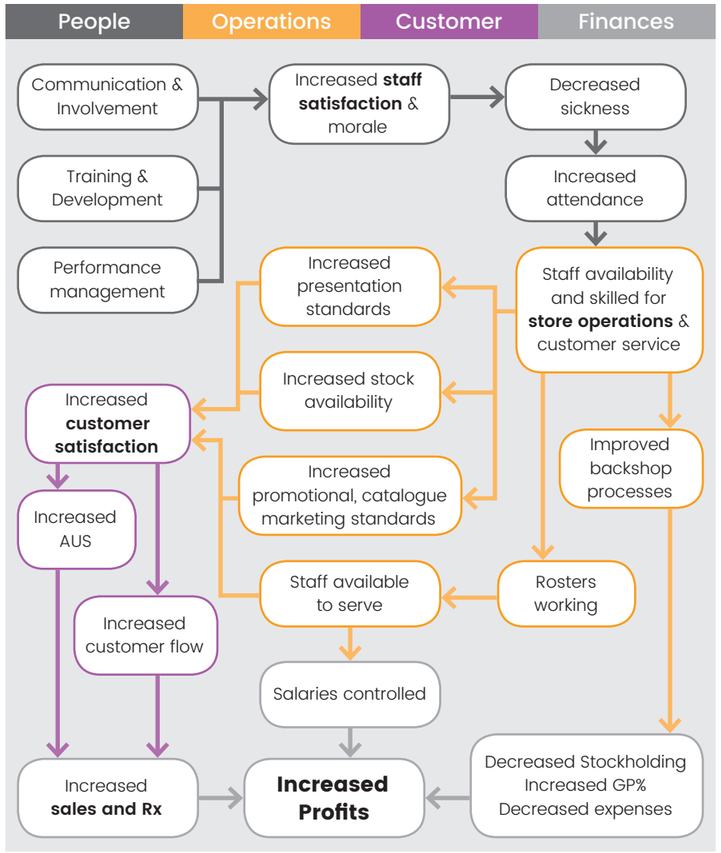


Figure 5. Relationship between People, Operations, Customers and Financial Performance

practices and decreased standards, and will prevent the consequent fall in customer numbers and Average Basket Value.

Commercial Operation Measures

The Commercial Operation Measures are those KPIs hidden in the background and result from data extraction and analysis. These measures are key to the smooth, efficient working of a pharmacy and must also be continually monitored against benchmarks, to determine opportunities and increase efficiencies. They fall into three major groups: Database, Space Management and Costs.

- Database measures must be analysed on a regular basis to ensure data integrity and accurate reporting, stock ordering etc. An inaccurate and poorly maintained database will drastically affect the potential efficiency of the pharmacy and it is thus essential that the database KPIs are monitored regularly to maintain database integrity. For example, if the database contains incorrect invoicing data, then GP$ may be incorrectly reported; if the database contains incorrect SOH, then the stock valuation of the pharmacy will be incorrect and any automated stock ordering processes may be flawed, resulting in lost sales or potential overstocks.
- Space management must be efficiently optimised as pharmacy rents are at a premium. It is important that not only individual category items' sell through rates are measured, but space is incorporated into the calculations to determine 'category unit sell through rate per linear meter', or similar, to then make space decisions to optimise the use of expensive pharmacy space.
- Costs of doing business incorporate any 'bill' that is paid, from power bills, through to the wholesaler bills, insurance bills, cleaning bills etc. It is essential that these costs are also regularly monitored and trended as small increases and mistakes can be of great detriment to the profitability of a business.

The interrelationships between what is done and how well it is done (the measures) can be seen to be getting more complex as indicated below, as Customer Satisfaction, Marketing effectiveness, Ease of shopping, Ease of paying, Queue length, Rx dispensing time, Loyalty membership, and counselling are added as additional customer measures to the diagram.

Element	Measure	Acc	Jul	Aug	Sept	Oct
Training	Hrs	GH	●	●	●	●
Perf reviews	All done	KI	●	●	●	●
Absence rate	%	KI	●	●	●	●
Turnover	%	HG	●	●	●	●
Morale	%	ER	●	●	●	●

Figure 6. Traffic Light Performance Measurement Grid

Team/People Measures

As previously stated, few information sources make any mention of any measures to monitor the pharmacy teams' collective and individual behaviours and skill sets.

Nothing happens in a pharmacy, be it Operational or Customer Service based, without some kind of intervention from a member of the pharmacy team. Every staff member's skill base and performance have a direct effect upon either the Operational or Customer Measures within the pharmacy and consequently, as discussed before, upon the eventual Customer Numbers and Average Basket Units. It is thus imperative that the entire teams' skill set, performance and behaviours are constantly monitored, measured and developed.

It is not wise to expect a team member to 'operate' effectively unless they are trained to be able to (sell), recognise conditions and recommend suitable products, solutions and services to relieve those conditions, or to be able to (operate) merchandise and market/promote the pharmacy without the appropriate training.

Due diligence must be applied to how the work environment can affect the team performance measures. The environment in which the team works can be responsible for the teams' behaviours and performance e.g. poor morale and poor communication can be responsible for increased unplanned absence.

A lack of training hinders the ability for the team to recommend products and offer sound advice. A lack of measuring individuals' performance disables the opportunity to feedback, coach, celebrate and keep.

Team morale is the key to building the business, team recognition, training to do the job, and a feeling of worth, and it can only be measured by decreased unplanned absence and decreased team turnover rate. Pharmacy leaders play an important role in managing staff, including managing roles, accountabilities and performance, mentoring and coaching staff, establishing measurement systems and developing a high-performance culture.

Figure 5 describes the complex interactions between all the Team, Operations and Customer measures. These interactions result in the outcome of increased Customer Numbers and increased Basket Value.

Monitoring

As described above, the performance measures of the pharmacy business must be able to:

- show patterns and trends emerging over a time period
- benchmark against other similar pharmacies
- compare like for like
- demonstrate progress towards targets (to owners, managers and the pharmacy team).

Once the performance elements have been decided and targets agreed, it is essential that the measures are monitored. The Measures should be monitored regularly (weekly/monthly) to determine trends which can be measured against benchmarks and specific targets. The results should be communicated regularly in a way that is easily understood.

A grid of numbers $, #, % alone can be confusing to many team members. It may be better to use the system of 'Traffic Light' dots to show 'on-track/off-track' performance vs. targets (Figure 6). In this visual representation of results, Green shows achievement (good) and Red indicates target not achieved, but represents opportunities.

Alternatively, the use of graphs such as graphs vs. time may also be used as the best analysis of some performance measures against targets.

Conclusion

In today's environment, community pharmacy owners and managers need to be aware of all the pharmacy's performance measures. They need to understand key performance measures and work with staff to maintain or improve performance — not just the financial measures.

Committed, trained and capable staff who are supported and motivated to achieve need to be part of decisions regarding what elements to target within four key performance areas (Team, Operations, Customer and Financials), the establishment of action plans, and the pharmacy's regular monitoring of progress towards targets.

Although financial KPIs are important, it is critical to understand the other three areas (Team, Operations, and Customer) and the plethora of interrelations between the elements of the four areas, which, with due attention and care, should lead to increased profits.